



JANNOCK LIMITED



Annual Report
1985

Financial highlights

(millions of dollars)*	1985	1984
Sales	254.9	218.9
Earnings from operations	19.5	8.6
Provision for income taxes	5.7	2.3
Earnings before extraordinary items	28.1	17.9
Working capital	14.0	22.5
Earnings per Common share before extraordinary items	2.10	1.20
Equity per Common share	11.04	9.36
Dividend per Common share	0.56	0.40

* Except per share figures

Jannock is a producer of clay brick in central Canada and of clay and limestone brick in the United States. It is engaged in three steel-related businesses across Canada. Jannock manufactures electrical components in Canada. The Corporation has equity interests in sugar refining, oil and gas, and high-technology corporations. Jannock is a leading participant in every market it serves.

A brick office tower is silhouetted against an early morning sky.

Westeel's porcelain enamelled steel panels are chosen for office buildings because of their aesthetic appeal and durability.

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Jannock Limited did very well in 1985. The earnings were \$28,053,000, or \$2.10 per share, compared with earnings of \$17,915,000, or \$1.20 per share in 1984. Consolidated sales for the year were \$254,919,000 compared with \$218,889,000 for 1984. The proportionate share of sales of the Corporation's non-consolidated operations amounted to \$251,174,000, bringing to \$506,093,000 the total sales for 1985. Sales of non-consolidated operations in 1984 on the same basis were \$236,280,000, bringing to \$455,169,000 the total sales for 1984.

The year was one of considerable activity. That activity helped produce the gratifying results mentioned above and put in place the foundation for improved earnings in 1986 and beyond.

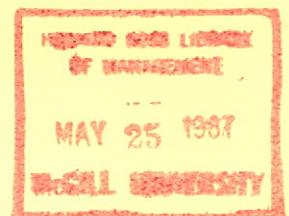
The earnings of the brick division were excellent, exceeding those of earlier years. The Canadian operations achieved a sold out position for the period. Housing starts in Canada were 170,000, up from the 134,900 starts in 1984. In the United States, the Michigan plant improved its sales and earnings to record levels. The Kentucky operation also increased its sales and earnings from 1984. The Texas business continued to suffer from a severe shrinkage in the Houston house-building market and a lessening of building activity in Dallas/Fort Worth.

Jannock's brick operations occupy a leading position in the Provinces of Ontario and Quebec, and in 1985 important steps were taken to maintain that position. In June, the Corporation approved plans to build a \$28 million "state-of-the-art" brick plant in Ontario. The facility will be constructed in two stages: the first 75 million brick per year kiln will be installed by January, 1987 and the second 75 million brick per year kiln will be ready in 1988. The brick division's strategic planning has identified a need for additional capacity in the longer term and plans are being formulated for another plant in the early 1990's. The total cost of the project will be \$51 million and can be financed internally. Shale reserves are sufficient for an extended period.

In late July, the brick operations made a significant acquisition in purchasing Domtar Inc.'s Canadian brick-making assets and business. The three plants, (in Ontario at Cooksville and Ottawa and in Quebec at LaPrairie) had an aggregate capacity of 130 million bricks per annum and adequate shale reserves. The benefits of this acquisition have been immediate and are reflected in the 1985 earnings of the division. The brick division will continue to make a significant contribution to Jannock's earnings and the actions taken in 1985 will ensure there is adequate brickmaking capacity to meet the demand for clay brick in central Canada.

In December, Jannock entered into an exclusive licensing agreement to manufacture and sell extruded polystyrene insulation board in eastern Canada. The extruded polystyrene insulation board will have superior thermal resistance qualities and be highly moisture resistant. The production facility will eventually have two production lines and will be built near Valleyfield, Quebec. The total cost of the new facility will be approximately \$14 million. Financial assistance will be received from agencies of both the Federal and Quebec governments.

The year was notable not only for increased earnings in several divisions, but also for the turnaround in the Westeel units. Both the agricultural and building products units had earnings from operations, in contrast to last year's aggregate loss of \$9,600,000. It should be noted this improvement was achieved on only a small increase in sales.



During 1985 the Corporation acquired the 50 per cent of the shares of Pacific Westeel Inc. it had not owned and the operation is now run as a division of Jannock.

The year 1985 saw further rationalization of the Westeel business. The chemical sprayer plant in Cedar Rapids, Iowa was closed in September. This business suffered from the same weak markets as those of other agricultural equipment and the closing of the plant served to cut the losses. The sale of redundant Westeel real estate was continued throughout the year, with properties in Dartmouth, Montreal, Toronto, Calgary, and Vancouver being sold.

Sonco continued to increase its earnings from earlier years, with particular improvement coming in the production and sale of hollow structural sections for the Canadian market. As the uses and advantages of hollow structural sections become better known in the Canadian construction industry, Sonco will increase its sales of this product.

Lyman Tubeco had an outstanding year and more than reflected the improvement in the economy. The division continues to become more efficient in its purchases of inventory and the subsequent delivery of such products to customers.

Allanson recorded its second straight excellent year, with sales and earnings exceeding any previous ones. The Allanson division has expanded its undertaking to include high technology operations. In February, 1985 Jannock purchased Hylogic Inc. and in December, the Corporation acquired Pulsar Circuits Inc., both of Montreal. The two businesses manufacture printed wiring boards used in the telecommunications, defense and computer industries.

The equity holdings of the Corporation contribute significantly to Jannock's earnings. Lantic Sugar, in which the Corporation holds a 50 per cent interest, had another good year. The progress made by Armco Westeel Inc., in which the Corporation has a substantial interest, is reflected in Jannock's earnings. Batten Graphics and Batten Gravure turned in better performances than in 1984.

Over the past year, Jannock continued to search aggressively for a major acquisition, but was unable to identify and purchase a business which met our exacting standards. The sound financial position of the Corporation, with no long-term debt, allows Jannock to consider the purchase of a relatively large business to augment the earning power of its present operations. This search will, however, continue in 1986. In the meantime, the Corporation is adding to the earning capacity of its present businesses by internal expansion and the purchase of additional capacity. Total outlays for acquisitions and capital expenditures in 1985 were over \$36 million. These expenditures are in businesses and industries where Jannock is an important market participant and where the growth in earnings is well defined. All our efforts are focused on increasing the earnings and the quality of those earnings.

The Corporation's superior performance in 1985 permitted the directors to increase the dividend on the common shares. At the directors' meeting in February, the dividend on the common shares was increased to 20 cents per share from 16 cents, commencing with the dividend payable April 1, 1986.

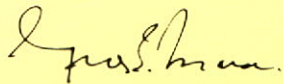
The higher dividend reflects the continuing improvement in earnings and prospects for Jannock and the strong financial position of the Corporation. The last dividend increase was made with the dividend payable July, 1985 when the dividend was increased to 16 cents from 12 cents.

Much of the Corporation's business is affected by interest rates. It has become a popular pastime to predict the movement of rates. Without falling into the trap of predicting the next half-point move in interest rates, it is worth noting that with inflation prospects as encouraging as they are, it is striking that interest rates remain as high as they are. It seems reasonable to assume that in the foreseeable future they will decrease gradually.

At a June meeting of the board of directors, the number of directors was increased to 13 and Mr. Peter Paul Saunders was appointed as a director. Mr. Saunders brings to the board considerable experience in Canadian business.

Mr. W.J.R. Paton and Mr. D.G. Willmot have reached the retirement age for directors, as provided for in the Corporation's by-laws and will be retiring as directors of Jannock. Mr. W.P. Frankenhoff will also not be standing for re-election as a director. Mr. Paton has had a long association with Jannock and was President of Atlantic Sugar Refineries Co. Limited prior to the amalgamation in 1973. Mr. Willmot became a director of Jannock in 1975 and served as Chairman of the Executive Committee of the board of directors until 1985. Mr. Frankenhoff has been a director for the past six years. All three men have given distinguished service to this Corporation.

We look forward to what can be accomplished this year. The litany of problems facing the economy is well known but should not obscure the positive factors and opportunities open to us. We will endeavor to make 1986 the best year yet.



*George E. Mara, C.M.
Chairman of the board
March 31, 1986*



*H. Gordon MacNeill
President and Chief Executive Officer*



BRICK OPERATIONS

The brick operations had a record-breaking year in 1985 and expect to repeat the performance in 1986.

The operations are conducted as five divisions: Canada Brick in Ontario, St. Lawrence Brick in Quebec, and U.S. Brick in Michigan, Kentucky, and Texas. The annual productive capacity of the Canadian divisions is 400 million bricks, while the capacity of the United States divisions is 360 million bricks. In 1985 the two Canadian divisions and Michigan Brick were sold out; in 1986 it is expected the Kentucky operations will be sold out as well.

The most notable event of the year was the acquisition of the three Canadian brick plants of Domtar Inc. The Cooksville plant is well located to serve the principal markets of southern Ontario. That plant is located on 120 acres in a developed area of Mississauga. When its useful life is over, the acreage has the potential for development as residential or commercial property. The newly acquired plant complements the other two plants in Mississauga and one in Burlington. The second Domtar plant is near Ottawa. That facility has an excellent reputation for quality products and serves the Ottawa and eastern Ontario markets. The third plant is contiguous to the original plant in LaPrairie, Quebec. The proximity of the two plants will make easier the integration of the acquired facility and allow for longer production runs at both plants. At the time of the purchase the three plants had an annual capacity of 130 million bricks. An upgrading program was then undertaken, with the result that capacity was increased 50 per cent at the LaPrairie unit and 10-15 per cent at the Ontario facilities.

The brick division also expended its efforts in providing for the continued growth and viability of the business in the years to come. At mid-year plans were announced for a \$51 million expansion program in Canada which will be carried out

over the next six or seven years. The acquired capacity in 1985 and the new facilities, when completed, will allow the division a good deal of flexibility in meeting the market demand for clay brick. The division is fortunate in having plentiful shale reserves to provide the raw material for these ambitious plans.

The brick operations are among the leaders in the application of the latest technology in brick-making. In order to increase production, the Michigan plant and the two Quebec plants introduced an oxygen-enrichment program for the kilns. Pure oxygen is fed into the kilns at predetermined points to accelerate the burning process of the raw brick. A 15 per cent increase in production was achieved by this technique. The Kentucky operation successfully converted its second kiln from gas to coal, and thus reduced its production costs. Computer technology is being used increasingly to improve control of the production process. During 1985 U.S. Brick also completed the construction of new, more efficient kilns to replace antiquated kilns in San Antonio.

The Canada Brick division sells its clay brick for diverse construction uses throughout Ontario. Perimeter walls are not unusual in developments in the United States, but they are in Canada. One of the most unusual applications of the division's brick was the construction of a perimeter wall, one and a half miles long and four feet high, built of McFarren Antique brick at an architecturally designed subdivision east of Woodbridge, Ontario.

The 1985 results of the operations in the United States were mixed. For the first time since 1979, Michigan Brick achieved a sold-out position. Michigan Brick also produces Real Brick, the veneer clay brick product, which is used in the renovation and new construction markets. Sales of this specialty product are increasing yearly.

The performance of the Kentucky-based business was also encouraging. The unit achieved

Brick Operations

E. Y. Carlson
Chairman

V. C. Hepburn
President

E. M. B. Wood
Vice-President, Finance

Canadian Divisions

Canada Brick
H. V. Henderson
Executive
Vice-President and
General Manager

St. Lawrence Brick

A. Goyer
President

U.S. Divisions

Michigan
T. C. Linacre
General Manager

Kentucky

W. F. Harrison, Jr.
General Manager

Texas

R. W. Rohlf's
General Manager

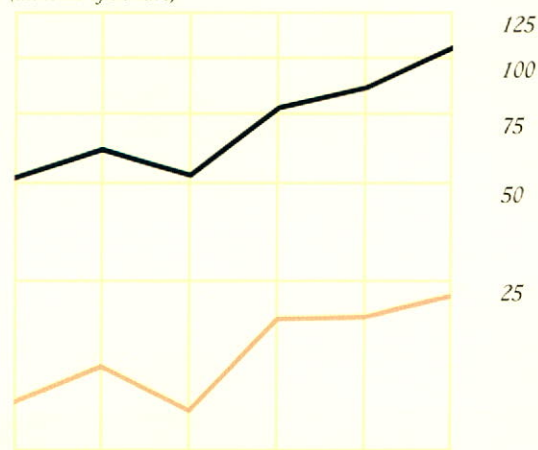
Real Brick Products

R. W. Bauer
General Manager



The late afternoon Dallas sun highlights the rich texture of brick.

(millions of dollars)



■	81	82	83	84	85
■	62.4	53.5	78.6	87.3	107.7
■	10.1	5.0	18.6	19.0	23.0

125
100
75
50
25

Sales
Earnings From Operations

BRICK OPERATIONS

a modest increase in sales and earnings. Located in eastern Kentucky, it has worked diligently to expand its markets, first west to St. Louis and then south into Knoxville, Memphis, and the Florida panhandle.

The Texas operation reflected the difficult market conditions in its two major markets, Dallas/Fort Worth and Houston. It adopted new, more vigorous marketing initiatives during the year, with the result that product is now sold in limited quantities in the surrounding states. Aggressive sales efforts were made to large tract builders in the major metropolitan areas of Texas so as to increase the penetration in that particular market. Product development was also emphasized. One of the two plants in Mineral Wells was used to produce modular brick, which in Texas is sold primarily for commercial and architectural applications. Simulated hand mold brick was made for custom jobs. This brick gives the impression of being individually produced and has proved to be quite popular. Thus, with improved marketing effort and product development, the Texas operation increased its market share in a shrinking market.

The past three years have constituted the most stable period in the history of the United States housing industry. This stability may be partially explained by new modes of mortgage financing. During periods of rising interest rates, lenders have shown that they can become more innovative in the mortgages they offer to the borrower. House buyers are thus able to continue purchasing houses during an otherwise difficult time. In periods of lower and more stable rates, fixed, long-term mortgages regain their popularity. Another factor tending to even out house construction is the mortgage qualification tests applied by lenders. In periods of high interest rates, the application of the tests tends to be more accommodating, while standards are likely to be strictly applied or even raised in periods of declining interest rates. In 1986 we expect the United States to have its fourth consecutive year of housing starts in the 1.7 million range.

The prospects for 1986 in all of North America appear excellent. With the full year's impact of the capacity acquired in 1985, improved results in Texas and consistent performance in the other divisions, record sales and higher earnings are anticipated.

Lyman Tubeco warehouses and distributes over 2,000 sizes of all types of tubing and pipe products. The warehousing operation is carried on from service centres in Montreal, Oakville, Winnipeg, and Edmonton. A sales office is maintained in Vancouver.

In 1985 the division made record earnings from operations on sales that were only modestly higher than in 1984.

Much of the division's business is reactive – meeting the immediate demands of its diverse group of customers for special sizes and types of tube and pipe products. The division has, however, expanded its business by working closely with many of its major customers to anticipate their tubing needs. For example, the division has collaborated with a bus manufacturer to provide the sizes and lengths of hollow structural sections required by that company. Lyman Tubeco stocks such sections, cuts to size as required, and delivers within 24 hours of the order. Working with customers has

also allowed the division to introduce new products so as to better serve the customer's needs. Lyman Tubeco surveyed customers in several industries to determine whether the best tubing products were available for use. As a result of this work, over 100 new alloyed tubular products have been stocked in Edmonton to better meet the specialized needs of the division's contract drilling customers. Induction-hardened chrome shafting in the appropriate sizes and grades is now stocked to supply the manufacturers of roadgraders, front-end loaders, and mining equipment.

Lyman Tubeco wants to expand its markets and is working to meet quality assurance standards set by the Canadian Standards Association. This will allow the division to supply tubular goods for high technology operations where the specifications and quality of the products must meet precise tolerances and exacting standards.

Steel tubular products sold by Lyman Tubeco are used in a wide range of industrial, commercial, and

Ferrum Inc.
R. J. Atkinson
President

F. L. Aguanno
Vice-President,
Finance

Lyman Tubeco Division
B. Halstead
Vice-President and
General Manager

Tubing and shafting products supplied by Lyman Tubeco are components of the truck's hydraulic cylinder.



consumer applications. The mono-rail and its passenger stations at Expo '86 are partially fabricated with products supplied by Lyman Tubeco.

Lyman Tubeco also acts as agent for direct sales to customers from producing mills. During 1985 the division booked its largest ever mill-direct sale of alloyed tubing for a trailer manufacturer in British Columbia.

It is expected the economy in 1986 will be such that the division can turn in another excellent performance.

The Sonco division performed well in 1985 under often difficult conditions. Its products, ranging from mechanical steel tubing to hollow structural sections to oil country tubular goods, are sold to more than 300 customers across a broad spectrum of industries in Canada and the United States.

The highlight of the year was the continuing increase in sales in Canada of hollow structural sections. Sales of this product were over 12 per cent higher than in 1984. These sales are made mainly to steel service centres, but a significant part of these sales was made by Sonco's technical sales people to fabricators for individual projects. Promotional work by Canada's major producers of hollow structural sections has educated architects and contractors to the advantages of their use over that of the traditional wide flange beams. Hollow structural sections, produced in square, round, and rectangular shapes up to 12 inches square with wall thicknesses up to .675 inches, have higher strength-to-weight ratios than the traditional beams. During 1985 this product found its way into diverse projects across Canada, including the addition to St. Joseph's Hospital in Hamilton, the Canada Pavilion Expo

'86, the Devco Mine near Sydney, Nova Scotia, and the addition to the West Edmonton Mall. The construction of Toronto's domed stadium will involve the use of large quantities of hollow structural sections, ranging in size from 1 1/2 inches to 12 inches square.

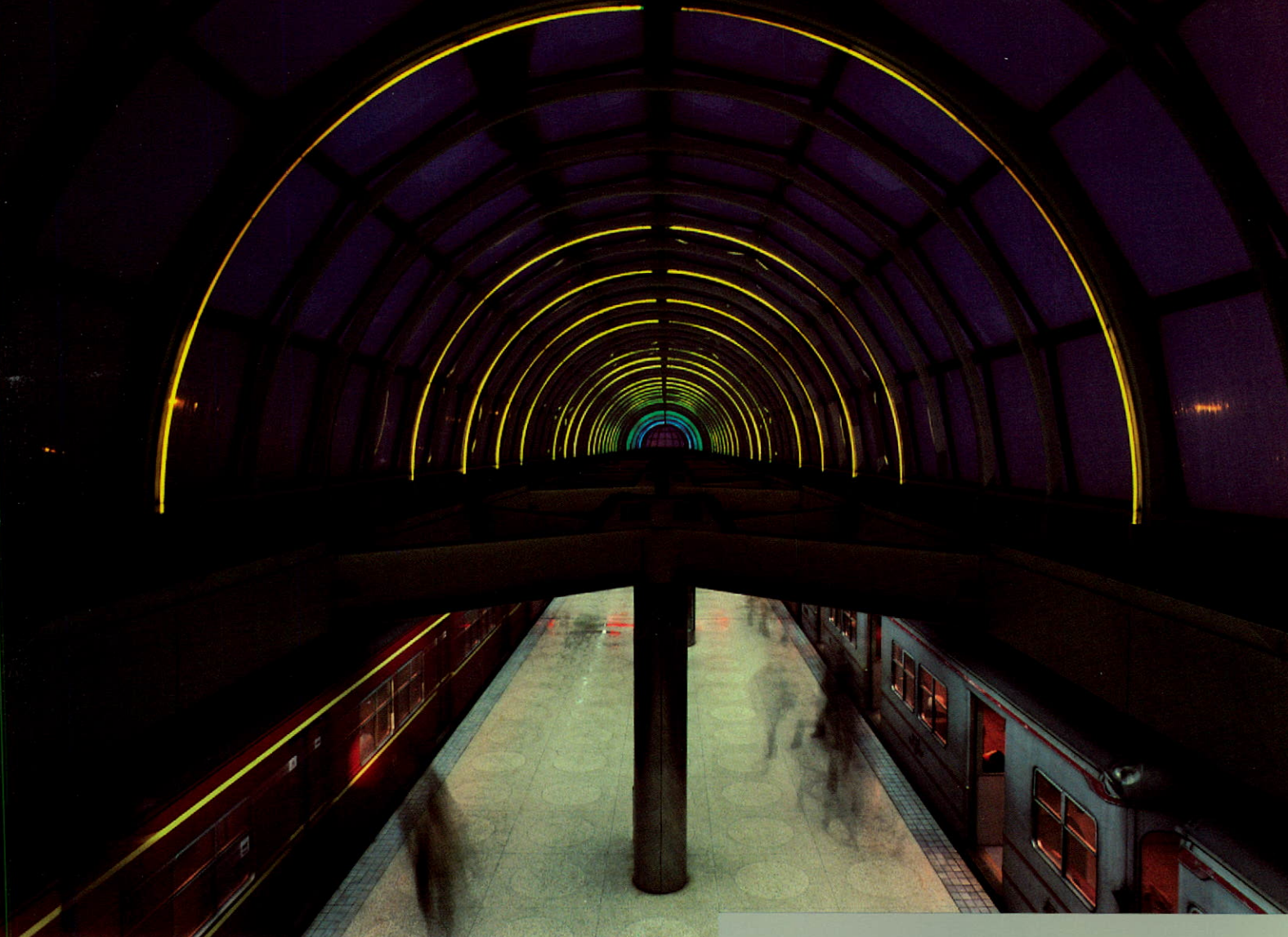
The production and sale of mechanical steel tubing to customers such as furniture manufacturers, swing set makers, and exercise equipment manufacturers reflect the state of the Canadian economy: sales expanded with the continued economic growth and the division operated close to capacity for this product.

On the other hand, the sale of oil country tubular goods reflected the depressed state of the oil industry. Sonco sold oil country tubular goods directly into the Appalachian region of the United States and produced goods for others selling to the oil industry. Product was shipped to U.S. Tubular Products, Inc., an Ohio-based business, which operates a pipe finishing plant for the threading, coupling, and hydrotesting of pipe and tubular products. Sonco owns a 50 per cent interest in U.S. Tubular Products, Inc.

Over the past year Sonco has worked diligently on the "just-in-time" inventory control program. Sonco is in the middle of the chain that connects the raw material supplier and the end user of the product. In order to satisfy its customers, Sonco must be able to deliver on time, but cannot afford the luxury of a large inventory. Strict inventory control, using the latest in computer management information systems, is part of the answer; improved productivity is another.

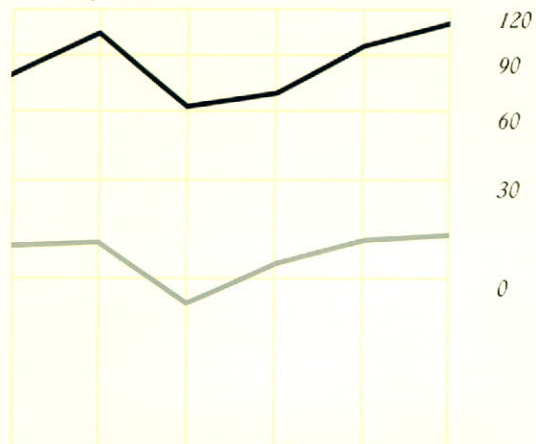
The prospects for Sonco in 1986 appear good and it is expected this year will see a similar performance by the division.

Sonco Division
R. G. Stewart
Vice-President and
General Manager



The roof of the Yorkdale subway station in Toronto is supported by hollow structural sections made by Sonco.

(millions of dollars)



■	105.0	64.0	71.2	101.5	113.6
■	11.9	(1.7)	5.3	12.2	13.9

Sales

Earnings From Operations

Allanson prospered in 1985. The year saw record sales and earnings for the second consecutive year.

One of the division's main products is ballasts for fluorescent and neon sign lighting. The neon segment of this market is growing; many of the signs at Expo '86, for example, are neon and equipped with the division's ballasts. A recent development in the industry is the rapid growth in the so-called "beer sign" market. These are the relatively small neon signs, which are often found in store windows and other commercial displays, perhaps advertising a particular brand of beer. Marketing emphasis this year will be directed at supplying the original equipment manufacturers of these mini-signs with ballasts. The engineering department is working energetically to develop a commercially acceptable solid state neon transformer, and to expand the product line in other ways.

The re-identification programs introduced by several of Canada's major oil companies and the change in signs required by take-overs in the oil industry resulted in a growing market for Allanson's ballasts.

Sales of ballasts for high intensity discharge lighting were also firm. These lamps, with their characteristic pale blue or orange light, are used extensively in street, highway, and industrial lighting. There is a growing indoor use of this lighting for industrial and commercial high ceiling buildings, because these lamps produce superior illumination and are less expensive to operate

than conventional lamps. Allanson manufactures a proprietary fluorescent ballast for use in an office environment system where the lights are dimmed or turned up automatically, depending upon the outside light. The division has also entered into an agreement with a major electrical products company to manufacture for it a private brand ballast for sale in the replacement market. These arrangements with major suppliers of electrical equipment will allow Allanson the economies of scale in the production of ballasts.

The division has traditionally occupied a leading position in the North American market for ignition transformers for oil burners. Transformers are sold to manufacturers of oil burners in Canada and the United States and to wholesalers and distributors for the replacement market. The Canadian market has been static, but the market in the United States has been growing. Allanson is one of only three producers in North America and has a significant market share because of its reputation for high quality and prompt service. The setting up of a sales office and warehouse on Long Island, New York has given Allanson the ability to serve this market better.

Sales of the Omni battery charger and the Allanson power converter for recreation vehicles were flat for 1985.

Prospects for 1986 are encouraging and it is expected the superior performance of the past two years will be continued.

Allanson Division

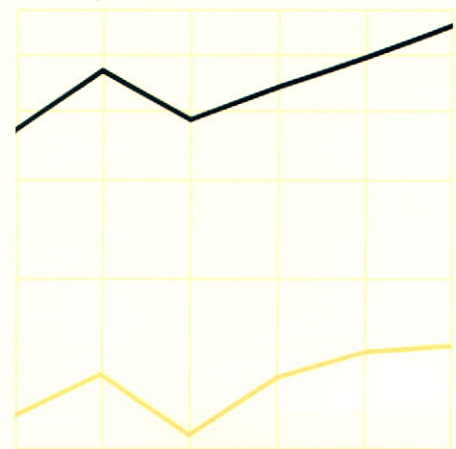
J. C. Annett
President

G. Luedecke
Chief Financial
Officer



Neon decorative lighting and signs, powered by Allanson ballasts, are used extensively at Toronto's trend setting Woodbine Shopping Mall.

(millions of dollars)



■	18.8	14.5	17.1	20.2	23.6
■	1.9	0.4	1.8	2.5	2.7

25
20
15
10
5

Sales
Earnings From Operations

Allanson makes products for which there are limited technological advances possible and where the markets for those products are mature and have minimal growth. The last two years' performance attests to the fact that the Allanson division is able to do exceptionally well in that environment, but mid-way through 1984, the decision was made to broaden the scope of the business and enter an industry where great technological advances can be made and where the market has very high growth potential. As a result, in the last 18 months, the Corporation has taken a position in the printed wiring board industry in Canada. This highly specialized equipment is used in the telecommunications, electronic, computer, defense, and information processing industries in North America. The North American market has substantial and well defined growth potential. Canadian manufacturers also enjoy the advantage of having greater than normal access to the United States market as a consequence of commercial and military offset programs negotiated by Canada for defense purchases in the United States.

Sophisticated electrical systems require a myriad of electrical or electronic interconnection devices. The basic electronic circuit's components, such as resistors and capacitors, are mounted on a printed wiring board, with wires or cable sets connecting the printed wiring board to other parts of the system. A further advance has been the replacement of cable sets with flexible circuits.

In mid-1984 the Corporation acquired an operation with expertise in manufacturing small precision parts for the electronics indus-

try. This manufacturing is done by high tolerance chemical milling and laser machining. The BTL division also makes flexible electrical interconnection devices called flex circuits. This type of business requires lengthy lead time from the development of the concept of the product and the research and development required, to the actual production and sale of the product. Several substantial contracts have been received from defense suppliers in the United States.

The printed wiring board industry produces single, double, and multi-layer boards, and as a result of recent acquisitions, Jannock is now represented in each segment of the market. The Hylogic division, located in Montreal, is a high volume producer of single and double sided printed circuit boards used primarily in the telecommunications industry in Canada. In the past year over \$2 million has been spent to upgrade the facilities and equipment so as to increase capacity and reduce production costs. Recently the Corporation acquired the Pulsar Circuits division, also of Montreal. That division will manufacture multi-layer boards for the telecommunications and defense industries, and will also specialize in making up prototypes of printed wiring boards for experimental purposes that will result in volume production in the future.

Due to an inventory correction, the industry suffered a downturn in sales in 1985. A rationalization of facilities and product lines of the acquired businesses was required over the year, and for these reasons the new operations lost money in 1985. With more efficient operations and an expanding market, it is expected the division will contribute to earnings in 1986.

Allanson - High
Technology
J. C. Annett
President

Hylogic Division
S. R. Lord
Vice-President and
General Manager

B. Cardone
Vice-President and
Operations Manager

Pulsar Circuits
Division
W. Wolowicz
Vice-President and
General Manager

BTL Division
M. Villeneuve
Vice-President and
General Manager



Hyllogic's printed wiring boards are an integral part of the control console of the earth station of a satellite communications system.

The great improvement in operating results was done the old fashioned way—by hard work. Westeel is made up of two units: building products, headquartered in Toronto; and agriculture, based in Winnipeg. The fundamental change from a significant loss in 1984 to earnings in 1985 was accomplished by carrying on business more efficiently than ever before.

The business of both units is essentially the fabrication of steel into products used in the non-residential building industry and in agriculture. Raw material makes up a high percentage of the total cost of the product. Therefore the purchasing, transportation, and handling of the raw material is crucial for profitable operation.

The people of Westeel have used their imagination and ingenuity to improve the division. Two of the employees at the Rexdale plant devised a way to save 10 per cent of the direct labor hours required to make grain bins. In Regina, several of the employees went to an auction of manufacturing equipment and purchased a piece of equipment that will reduce by 20 hours the labor required in the production of storage tanks. Improvements in production planning have also made a difference. Last year set-up times on a roll-former at the Rexdale plant were reduced by as much as 70 per cent, because of better equipment and planning. Our people are now able to get more output from that equipment and thus provide flexibility for improved customer service.

Westeel Building Products will be seen by the world at Expo '86 in Vancouver. The entrance way is covered with curved porcelain enamel panels produced by the

P. G. Bell unit in Georgetown, Ontario. The division supplied the exterior wall system for over a dozen of the pavilions, including Canada Place, Ontario Place, and the Canadian Pacific Pavilion. The unit is a subcontractor for the Calgary Olympic Oval roof for the Winter Olympics of 1988. The job in Calgary is herculean in proportions: the panels will cover a roof area of almost five acres!

The agriculture unit has become more efficient with the consolidation of its operations in the St. Boniface plant. Formerly, not all of the components of the grain bins were produced at one location and the roofs for some models of bins had to be purchased. With the consolidation in the St. Boniface facility, all parts, with one exception, will be made at that location. Grain bin sales are the mainstay of the unit and sales were surprisingly strong in eastern Canada and in Manitoba where the 1985 crop was better than expected.

The agriculture unit is constantly searching for export markets. In 1985 grain bins to hold barley for malting purposes were sold to ten different breweries in China and efforts are continuing to expand these sales in 1986. The unit has sold grain bins to Great Britain in earlier years and sales were again made in 1985. The division has come a long way in 1985, and in 1986 will build on the progress achieved.

The Pacific Westeel division manufactures and markets metal shelving and storage racking for commercial and industrial purposes. The business is carried on from leased premises in Burlington, Ontario.

Westeel

R. J. Atkinson
President

D. B. Leask
Vice-President,
Manufacturing

Agricultural Division

D. W. Taylor
Vice-President
and General Manager

W. P. Drysdale
Chief Financial
Officer

Building Products Division

R. H. Jones
Vice-President
and General Manager

B. W. Smith
Chief Financial
Officer

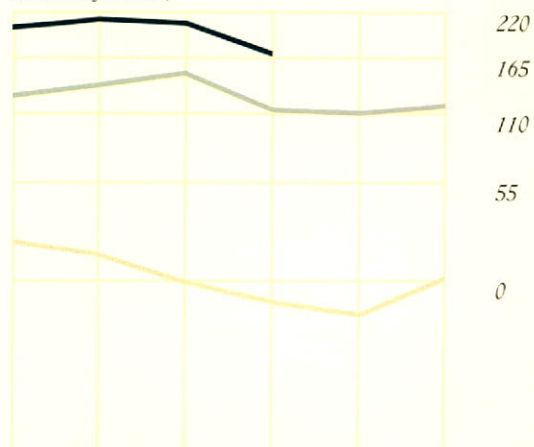
Pacific Westeel Division

H. Dutton
Vice-President
and General Manager



Porcelain enamelled steel panels, produced by Westeel, are a feature of the Alberta Gas Ethylene Company Ltd.'s building at Joffre, Alberta.

(millions of dollars)



■	213.2	209.0	171.4	—	—
■	138.0	149.3	113.7	110.5	117.1
■	16.2	0.8	(5.5)	(9.6)	0.2

Sales
Sales From Continuing Operations
Earnings From Operations

EQUITY INVESTMENTS

Armco Westeel Inc.

Armco Westeel Inc. carries on two businesses—construction products and building systems. The construction products division, with 13 plants across Canada, is the leading producer of highway and drainage products in Canada. In 1985 a new plant was opened in leased premises in Lethbridge, Alberta to serve the southern Alberta market. Additional roll-forming equipment was installed in the Thunder Bay plant while the facility at Terrace, British Columbia was closed.

Sales of construction products declined marginally over the year, but earnings from operations increased as the division became more efficient and cost conscious.

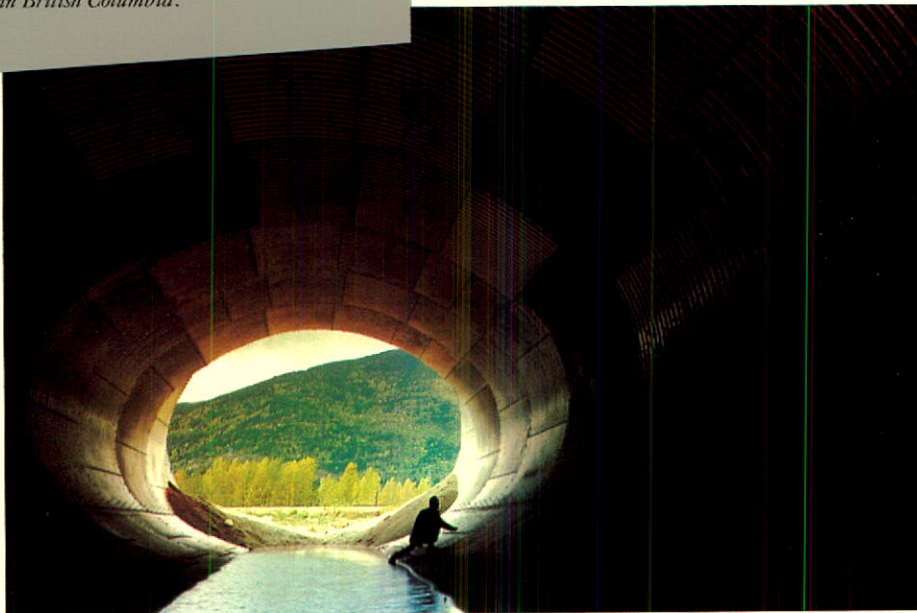
During 1985 the division supplied highway drainage material for phase one of the Coquihalla highway project in the interior of British Columbia. The road, when completed, will be a four-lane controlled

access highway 113 kilometres from Hope in the south to Merritt in the north. Armco Westeel supplied large "soil steel" bridges, multiple drainage structures, steel retaining walls, and drainage pipe.

The building systems division manufactures pre-engineered buildings at plants in Guelph, Ontario. Sales of the division declined in 1985 due to the low level of non-residential construction in Canada. A start has been made in selling the building systems in the northeastern United States under the trade name "Westran". A dealer organization is being set up to market these systems in the United States.

The outlook for 1986 is satisfactory. Sales are expected to increase marginally and with reduced material costs in both divisions, construction products should increase earnings and building systems should return to profitability.

One of 20 Armco Westeel engineered super span structures supplied on the new Coquihalla highway in British Columbia.



EQUITY INVESTMENTS

Lantic Sugar Limited is Canada's largest sugar refining and marketing company. Lantic markets a wide variety of sugar products in eastern Canada under the trade name "Lantic". Sales are made to soft drink bottlers, confectioners, wholesalers, and chain supermarkets. Sales offices and warehouses are located throughout eastern Canada. Lantic has sugar refineries in Saint John, New Brunswick, Montreal, Quebec, and Oshawa, Ontario. The operation of the three refineries allows Lantic a good deal of flexibility in supplying the several regional markets within eastern Canada and in producing specialty sugar products for that market. Jannock has a 50 per cent equity interest in Lantic.

The year was a successful one for Lantic, even though earnings from operations were down from those of the earlier year. The earnings of Lantic were lower partially because of conditions in the United States market.

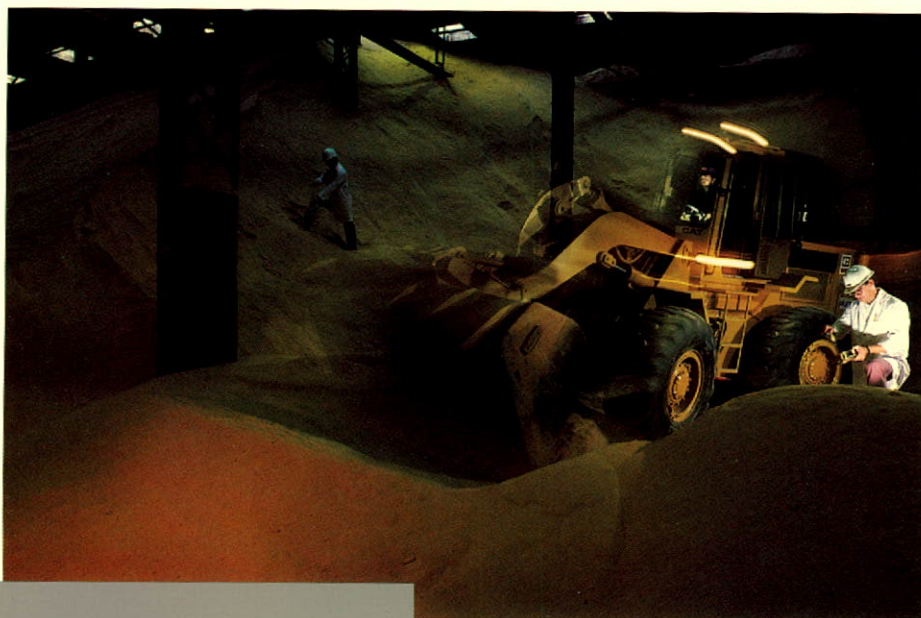
The United States has followed a policy of subsidizing its domestic producers of raw sugar by means of high support prices and restrictive import quotas. This has led to artificially high prices for sugar and has allowed certain Canadian food

manufacturers to sell finished and semi-finished products in the United States.

Early in 1985 the United States government imposed import quotas on certain food products containing sugar entering the United States. This was done in the belief that these products were entering the United States in such volume as to materially interfere with the United States price support program for sugar.

Another consequence of the price imbalance between the two countries was the increased amount of refined sugar coming into Canada from the United States. Under the artificial scheme of sugar pricing, it is advantageous for United States refiners to ship refined sugar into this country and claim a duty drawback under the United States re-export program. The importation of this foreign sugar accounted for 10 per cent of the domestic market in 1985.

It is expected that Lantic Sugar will have a satisfactory year in 1986. Raw sugar prices should increase slightly during 1986 but will be at a level that will allow Canadian refiners to compete effectively in the domestic market with higher cost substitute sweeteners, such as high fructose corn syrup.



Raw sugar at the Montreal refinery is gathered for refining.

Technology-related businesses Jannock holds a 50 per cent interest in Batten Graphics and Batten Gravure. Batten Graphics provides color separation services to the national advertising market and Batten Gravure produces rotogravure cylinders for the packaging and wall-covering industries.

Both businesses are making the transition from what five years ago was a craft-oriented operation to what is today a specialized, high technology enterprise. An example of this is the way Graphics serves its customers for color separations. In the preparation of an advertisement, the agency art director may wish to change the basic material to better suit his purposes. Formerly, the changes that could be made were restricted and limited. Now, Batten Graphics, using the latest electronic equipment, can stretch images horizontally or vertically, substitute one background for another, allow for multiple color changes, and add or delete images at will. Distracting detail, unsightly marks, or even transparency scratches can be removed. If need

be, the Batten equipment can actually blend pictures together to meet the director's requirements and rescale images to the desired size. The possibilities of image manipulation are virtually limitless.

In 1985 Batten Gravure used advanced technology to capture an increased share of the rotogravure cylinder market. The use of laser imaging, coupled with an advanced spray etching system of engraving on the copper, produced chrome-plated rotogravure cylinders for superior reproduction of the printing on packages, cartons, and bags used to hold consumer products. The rotogravure cylinders, one for each color to be printed, are sold by Batten Gravure to packaging converting companies who in turn send the printed materials to major consumer product companies for use in the preparation of packaging for their products.

The rapid evolution in technology in these two areas brings with it many opportunities for growth and increased earnings. In 1985 both companies recorded worthwhile growth in sales and earnings. It is expected this favorable trend will continue in 1986.



A Batten Graphic's technician verifies the color fidelity of a transparency for use in an advertisement.

Financial review

Sales and earnings

Consolidated sales in 1985 increased to \$255 million, or by 16 per cent, from \$219 million in 1984. The increase was mainly in brick and electrical segments due in part to acquisitions which expanded capacity in these businesses as well as to higher sales from other consolidated divisions. Jannock's total sales including a proportionate share of sales of the non-consolidated operations as detailed in Note 12 to the financial statements increased to \$506 million in 1985 from \$455 million in 1984.

Earnings from operations at \$19.5 million were \$10.9 million more than those for 1984. The increase is due to a turnaround in Westeel units, which posted a \$0.2 million gain after a \$9.6 million loss from operations in 1984, and to an increase in Brick's earnings due to higher utilization of its Canadian facilities which were expanded by three plants acquired in July. Despite improved results from the Allanson core businesses, earnings in electrical were less because of depressed market conditions in its technologies sector.

Earnings from operations which is before other income, interest expense, and income taxes are reviewed by divisional management on pages 4 to 15 of this report.

Due to lower interest rates, interest expense is marginally lower despite higher borrowings in 1985 than in 1984. The prime rate opened the year at 11 per cent and after a small increase, dropped to the 10 per cent range by early in the second quarter and remained there for the remainder of the year.

The year's income tax provision is analyzed in Note 7(a) to the financial statements. Jannock's overall tax rate is subject to yearly fluctuations because of the different effective rates of tax applicable to each business and the various jurisdictions in which they operate.

Equity net earnings for 1985, at \$17.3 million, were \$3.6 million more than in 1984. Lantic Sugar Limited, in which the company has a 50 per cent interest, contributed \$10.3 million to equity earnings, as compared to \$9.9 million in 1984. The beneficial effect from the October, 1984 acquisition of St. Lawrence Sugar was offset by U.S. refiners' dumping in Canada. Other equity-accounted investments, namely, Ferrum Inc., Armco Westeel Inc., Strand Oil & Gas Ltd., Batten Graphics Limited, and Batten Gravure Cylinders Limited also reported increased equity net earnings in 1985.

Review of quarterly sales and earnings

(millions of dollars except per share data)		1985	1984
Sales	First Quarter	38.3	37.5
	Second Quarter	65.0	62.9
	Third Quarter	74.3	61.7
	Fourth Quarter	77.3	56.8
		254.9	218.9
Earnings before extraordinary items	First Quarter	4.1	1.8
	Second Quarter	7.6	7.5
	Third Quarter	9.3	4.9
	Fourth Quarter	7.1	3.7
		28.1	17.9
Earnings per share		\$2.10	\$1.20

Financial position

During 1985, total assets increased by \$39.6 million, or 18 per cent, to \$256.5 million. The increase mainly reflects acquisitions in brick and technology related companies and the higher investments in current assets which support the higher level of operations of consolidated divisions.

This asset increase and the financing activities noted below were financed by internally generated funds and short-term bank indebtedness. The balance at the end of the year of bank indebtedness, all subject to floating rates, was \$29.2 million, or \$5 million higher than at the beginning of the year.

The working capital level of \$14.0 million at the year end is down from the \$22.5 million at the end of 1984. The working capital ratio is also down to 1.2:1 at year end from the 1.4:1 at the end of the previous year. The lower level and ratio indicate the increases of bank indebtedness and other current

liabilities over those of inventories and receivables. The increase in receivables reflects higher sales activity from the expanded consolidated divisions. The increase in inventories was lower than a proportional increase in volumes and indicates continuing management efforts to control inventories. Westeel inventories were actually reduced during the year, even with its increased business.

During 1985, funds were spent on acquisitions costing \$23.3 million, \$20.5 million for the operating assets of the brick division of Domtar Inc., and \$2.8 million for the shares of three companies producing printed circuit boards. This is significantly more than the \$1.9 million spent for acquisitions in 1984. In addition, capital expenditure outlays totalled \$13.1 million, an increase of \$3.6 million from 1984.

The main capital expenditures undertaken during the year were:

(millions of dollars)	1985 Outlay
Westeel	
Agri facilities consolidation and grain bin roofing line	2.8
Technologies	
Expansion	3.4
Polystyrene plant	1.8

Plans were announced to build a new brick plant in Ontario for \$28 million and to build a plant to manufacture and sell, under license and through a limited partnership, extruded polystyrene insulation board. The \$14 million total cost will be partially financed by government grants. These outlays will be made over the next two years.

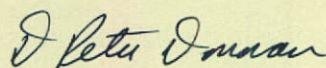
Funds of \$5.9 million were provided by the disposal during 1985 of fixed assets, mainly five former Westeel locations. Funds were also provided by a \$4.6 million decrease in investments, which includes the net result of a preference share redemption by Lantic Sugar Limited and the final advance to Strand Oil & Gas Ltd. under a 1983 flow-through share agreement.

Financing activities include net reductions in the Company's own share capital, totalling \$6.0 million, and an increase in common share capital of \$2.2 million. Dividends on preference shares were \$0.4 million less in 1985 than in 1984 as a result of the fewer preference shares outstanding. Dividends on common shares increased \$1.9 million in 1985 from the 1984 level, due mainly to the increase in the dividend rate from 12 cents per quarter to 16 cents per quarter as of July 1, 1985, as well as to a higher average number of shares outstanding in 1985 than in 1984.

Summary

In 1985, Jannock's net earnings grew significantly because of the improving results reported by its operating divisions. Combined with continuing improvements in operational efficiencies and market demand in Westeel, Jannock's increased capacity in Brick and Technologies for serving its markets indicates that prospects for improved performance are even better in 1986. The markets which they serve should participate in the general economic improvement in North America which is expected in 1986, unless this improvement is hampered in Canada by a prolonged return to high interest rates in defense of the Canadian dollar.

Jannock's strong financial position, with no long-term debt, provides the financial capacity to undertake its announced expansions despite possible adverse economic developments, and to capitalize on other growth opportunities in its current businesses or in new businesses.



D. Peter Donovan
Vice-President, Finance and
Chief Financial Officer

Consolidated statement of earnings

For the year ended December 31, 1985
(thousands of dollars)

	1985	1984
Sales	254,919	218,889
Cost of sales, selling, distribution and general expenses	235,397	210,296
Earnings from operations	19,522	8,593
Interest on short-term debt	3,251	3,483
Interest on long-term debt	—	43
	3,251	3,526
Other income	126	1,424
	3,125	2,102
Earnings before income taxes	16,397	6,491
Provision for income taxes (note 7)		
Current	3,570	136
Deferred	2,102	2,119
	5,672	2,255
Earnings before equity in earnings of investments and extraordinary items	10,725	4,236
Equity in earnings of investments (note 8)	17,328	13,679
Earnings before extraordinary items	28,053	17,915
Extraordinary items (note 9)	(316)	(51)
Net earnings for the year	27,737	17,864
Basic earnings per share		
Before extraordinary items	\$2.10	\$1.20
After extraordinary items	\$2.07	\$1.19
Fully diluted earnings per share		
Before extraordinary items	\$1.90	\$1.12
After extraordinary items	\$1.88	\$1.11
See accompanying statement of accounting policies and notes to financial statements.		

Consolidated balance sheet

As at December 31, 1985
(thousands of dollars)

Assets		1985	1984
Current assets	Accounts receivable	48,281	38,462
	Inventories (note 2)	38,482	34,364
	Prepaid expenses and other assets	2,507	2,001
		89,270	74,827
Fixed assets – net (note 3)		85,611	66,955
Investments (note 4)		69,778	66,644
Other assets (note 5)		4,273	3,519
Intangibles		7,573	4,980
		256,505	216,925

Liabilities

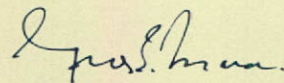
Current liabilities	Bank indebtedness	29,192	24,171
	Accounts payable and accrued liabilities	39,202	24,913
	Income taxes payable	3,108	99
	Dividends payable	2,439	1,936
	Deferred income taxes	1,345	1,171
		75,286	52,290
Deferred income taxes		3,918	3,313
		79,204	55,603

Shareholders' equity

Share capital (note 6)	Issued and fully paid –		
	1,250,000 First Preference shares, Series One	25,000	30,000
	1,436,495 \$1.20 Second Preference shares	21,547	22,100
	248 \$0.60 Third Preference shares	3	8
	11,847,964 Common shares	61,969	60,276
Retained earnings		61,937	44,703
Foreign currency translation adjustment		6,845	4,235
		177,301	161,322
		256,505	216,925

See accompanying statement of accounting
policies and notes to financial statements.

Signed on behalf
of the board


Director


Director

Consolidated statement of changes in financial position

For the year ended December 31, 1985
(thousands of dollars)

Operating activities	Net earnings for the year before extraordinary items	28,053	17,915
	Items not affecting working capital		
	Depreciation and amortization	8,657	7,395
	Deferred income taxes – long-term portion	1,928	3,208
	Equity in earnings of investments (net of dividends received)	(7,863)	(8,019)
	Loss on sale of fixed assets	367	226
	Working capital provided by operations	31,142	20,725
	Working capital changes		
	Accounts receivable	(7,067)	4,476
	Inventories	2,611	2,707
	Accounts payable and accrued liabilities	8,025	(1,525)
	Income taxes payable	3,009	(3,589)
	Other	384	1,763
	Proceeds on disposal of fixed assets	5,883	1,563
	Additions to fixed assets	(13,093)	(9,538)
	Costs of restructuring and discontinuance of certain businesses	(1,630)	(1,690)
	Other	(205)	–
	Funds provided (used) by operating activities	29,059	14,892
Financing and investing activities	Cost of acquisitions	(23,335)	–
	Issue of share capital	2,195	2,601
	Decrease (increase) in investments	4,626	(4,345)
	Dividends	(10,576)	(9,098)
	Increase in other assets	(754)	(2,413)
	Reduction in long-term debt	–	(563)
	Reduction of share capital	(5,988)	(566)
	Increase in intangibles	(248)	(324)
	Funds provided (used) by financing and investing activities	(34,080)	(14,708)
	Decrease (increase) in bank indebtedness	(5,021)	184
	Bank indebtedness – beginning of year	24,171	24,355
	Bank indebtedness – end of year	29,192	24,171

See accompanying statement of accounting policies and notes to financial statements.

Consolidated statement of retained earnings

For the year ended December 31, 1985
(thousands of dollars)

	1985	1984
Balance—beginning of year	44,703	35,847
Net earnings for the year	27,737	17,864
Cost under the stated book value of preference shares purchased for cancellation	73	90
	72,513	53,801
Dividends—		
First Preference shares	1,810	2,188
\$1.20 Second Preference shares	1,749	1,782
\$0.60 Third Preference shares	—	1
Common shares	7,017	5,127
	10,576	9,098
Balance—end of year	61,937	44,703

See accompanying statement of accounting policies and notes to financial statements.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Jannock Limited as at December 31, 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants
Toronto, Canada
February 20, 1986

Statement of accounting policies

For the year ended December 31, 1985

Principles of consolidation	These consolidated financial statements include the accounts of the Corporation and its subsidiaries, except those subsidiaries accounted for by the equity method. Intercompany transactions and account balances have been eliminated on consolidation. Acquisitions are accounted for by the purchase method and accordingly the results of operations of subsidiaries are included from the dates of acquisition. Investments in companies over which the Corporation exercises significant influence and investments in subsidiaries held under agreements granting options for the purchase of a controlling interest are accounted for by the equity method whereby the Corporation includes its proportionate share of earnings and losses of such companies in consolidated earnings. Investments in other companies are carried at cost and income is recorded only to the extent received.
Inventories	Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.
Fixed assets	Fixed assets are carried at cost. Interest expense relating to major capital expenditures is capitalized by a charge to fixed asset additions when significant interest costs will be incurred before the capital facility commences production. Depreciation of fixed assets, which is based on management's estimate of the useful life, is calculated on a straight-line basis. Profits and losses on the disposal of fixed assets are charged to operations unless of an extraordinary nature.
Intangibles	Intangibles comprise principally goodwill, being the excess of cost of investment in subsidiaries over the assigned value of net assets acquired. The amount arising prior to March 31, 1974 is not being amortized as management believes it has a continuing value. In accordance with generally accepted accounting principles, the amount relating to acquisitions after March 31, 1974 is being amortized on a straight-line basis over the lesser of its estimated useful life and forty years. Goodwill is written down by a charge to earnings as an extraordinary item when, in the opinion of management, there has been a permanent impairment in value.
Income taxes	Deferred income taxes are provided for all differences between the income and expenses reflected in these statements and the amounts included in the computation of income for tax purposes for the current year, provided that such differences will be included in the computation of income for tax purposes in future years. These timing differences comprise primarily: -the excess of capital cost allowance for income tax purposes over depreciation expense. -accounts receivable holdbacks which are not yet subject to income taxes. Effective January 1, 1985 the Corporation adopted the recommendation of the Canadian Institute of Chartered Accountants whereby investment tax credits related to capital expenditures incurred after that date will be accounted for by the cost reduction (deferral) method. For capital expenditures prior to January 1, 1985 related investment tax credits not yet utilized will continue to be accounted for using the "flow through" method which recognizes the credits as a reduction of income tax expense in the year in which they are claimed for tax purposes. The effect of this change in accounting policy had no significant impact on the 1985 earnings of the Corporation.
Contract revenues	Revenues from construction supply-and-install contracts are recognized on the percentage of completion basis.
Translation of foreign currencies	Assets and liabilities of self-sustaining foreign operations are translated to Canadian dollars at the rate of exchange in effect at the year-end. Income and expenses in foreign currencies are translated to Canadian dollars at rates approximating the average rates of exchange during the year. Exchange differences arising on translation of the financial statements of foreign operations are taken to a foreign currency translation adjustment account in the shareholders' equity section of the consolidated balance sheet.

Notes to consolidated financial statements

For the year ended December 31, 1985

1 Significant changes in operations

On July 29, 1985 the Corporation acquired the operating assets of the brick division of Domtar Inc. for a cash consideration of \$20,576,000. Values assigned to the acquired assets were:

Fixed assets	\$16,052,000
Inventory	4,524,000
	<u>\$20,576,000</u>

During 1985, the Corporation acquired all the outstanding shares of Hylogic Inc., 127597 Canada Ltd. and Pulsar Circuits Inc., three unrelated companies all of which manufacture printed circuit boards. The total cost of these three acquisitions was \$2,759,000 cash, the majority of which was goodwill.

During 1985, the Corporation advanced the final \$2,049,000 to Strand Oil & Gas Ltd. on account of exploration and development costs in accordance with a 1983 agreement. Pursuant to this agreement, the Corporation earned 372,500 common shares (flow through). Government PIP grants of \$674,000 applicable to such exploration and development expenditures reduced the cost of this investment which continues to be accounted for by the equity method.

	(thousands of dollars)	1985	1984
2 Inventories			
	Raw materials and supplies	15,287	10,544
	Work-in-process	3,793	3,459
	Finished goods	19,402	20,361
		<u>38,482</u>	<u>34,364</u>

(thousands of dollars)		1985		1984		
3 Fixed assets		Cost	Net	Depreciation rates %	Cost	Net
	Land	18,341	17,298	—	14,493	13,644
	Buildings	32,493	19,299	2½-5	32,497	19,211
	Plant equipment	87,388	41,233	5-20	66,055	26,868
	Mobile equipment	7,843	2,396	20-33	7,782	2,297
	Furniture and fixtures	3,287	1,403	10-20	3,915	1,028
	Leasehold improvements	2,363	1,501	5-10	1,079	442
	Construction in progress	2,481	2,481	—	3,465	3,465
		154,196	85,611		129,286	66,955

Insured value on the basis of replacement cost as at December 31, 1985 was \$200,000,000.

	(thousands of dollars)	1985	1984
4 Investments	Companies accounted for by the equity method:		
	Non-consolidated subsidiaries:		
	Ferrum Inc.	20,724	20,407
	Armco Westeel Inc.	8,705	7,937
	Other companies:		
	Lantic Sugar Limited	23,103	23,413
	Strand Oil & Gas Ltd.	12,194	9,596
	Other	2,317	2,556
	Other company at cost (market value \$1,756,000; 1984 - \$2,205,000)	67,043	63,909
		2,735	2,735
		69,778	66,644

The Corporation entered into an agreement effective February 26, 1983 under which it granted options to The Algoma Steel Corporation, Limited to purchase in five years either 50% or 100% of the shares of its wholly-owned subsidiary, Ferrum Inc. at prices to be determined by formula at the date of exercise of the options. During the five-year period, a steel supply agreement with Algoma is in effect.

The Corporation has voting control of Armco Westeel Inc. and a 40% interest in its equity and earnings.

5 Other assets	Other assets include long-term receivables from officers of \$2,247,000 (1984 - \$2,345,900) which are non-interest bearing, non-recourse loans advanced under the Corporation's share purchase plan (see Note 6(b)).
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6 Share capital	<i>(a) Authorized</i> 3,000,000 First Preference shares issuable in series. The first series, consisting of 1,250,000 shares, are designated as Cumulative Redeemable First Preference shares, Series One and are non-voting unless six quarterly dividends are in arrears. The dividend rate for these shares is equal to one-half the Canadian prime bank rate, plus 1¼%. The Corporation must redeem 250,000 of these shares at a price of \$20.00 per share in each of the years 1986 and 1987 and the balance in 1988. The provisions attaching to these shares provide for their early retirement in certain events and contain restrictions on the issuance of additional debt. 1,516,347 \$1.20 Cumulative Redeemable Second Preference shares. These shares are redeemable at \$17.00 per share and may be purchased for cancellation from a \$300,000 annual purchase fund. These shares carry no voting rights until six quarterly dividends are in arrears. 593,972 \$0.60 Cumulative Non-voting Third Preference shares. These shares may be redeemed at the option of the Corporation or the holder at a price of \$10.00 per share. 19,965,000 Common shares.
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(b) Changes during the year

There were 30,000 Common shares issued to senior officers for a cash consideration of \$480,000 under the Corporation's share purchase plan. In addition, 185,160 Common shares were issued as a result of the exercise of warrants for a cash consideration of \$1,525,200 and 10,662 Common shares were issued to common shareholders as dividends under the Optional Dividend Plan for a stated value of \$126,427. There were 35,000 Common shares cancelled during the year at a cost of \$439,075 as the result of senior officers leaving the employ of the Corporation.

There were 250,000 First Preference shares redeemed for \$5,000,000 cash.

There were 36,805 Second Preference shares purchased for cancellation for \$479,265 cash.

There were 6,440 Third Preference shares issued to common shareholders as dividends under the Optional Dividend Plan at a stated value of \$64,400. There were 6,984 Third Preference shares redeemed for \$69,840 cash.

Share capital
(continued)

(c) Reservations of Capital Stock

(i) Warrants

The following share purchase warrants are outstanding:	Name	Number	Expiry Date
	1977 Warrants	488,483	July 31, 1987
	1983 Warrants	729,000	December 31, 1986

Each 1977 warrant entitles the holder to purchase two Common shares of the Corporation at an aggregate price of \$15.00. The unit of trading on The Toronto Stock Exchange and The Montreal Exchange represents the right to purchase one Common share. One warrant therefore represents two trading units.

Each 1983 warrant entitles the holder to purchase one Common share of the Corporation at a price of \$14.00. These warrants are not listed on any stock exchange.

(ii) Options

181,500 Common shares have been reserved under a stock option plan for officers and employees.

40,000 Common shares are reserved under a share purchase plan for officers and employees. The purchase price is market value at the date of issue of shares under the plan.

	(percentage)	1985	1984
7 Income taxes	(a) The effective income tax rate is determined as follows:		
	Income tax at statutory rates	50.4	50.7
	Statutory tax credits	(9.8)	(15.5)
	Effect of losses in partnership interest	(7.7)	—
	Inter-unit interest income at reduced rates	—	(11.2)
	Adjustment of taxes previously provided	—	5.5
	Other	1.7	5.2
	Effective income tax rate	34.6	34.7

(b) The Corporation has investment tax credits of approximately \$2,660,000 and a non-consolidated wholly-owned subsidiary has a further \$1,045,000 of investment tax credits, both of which are available to reduce future income taxes.

	(thousands of dollars)	1985	1984
8 Equity in earnings of investments	Non-consolidated subsidiaries:		
	Ferrum Inc.	5,374	3,459
	Armco Westeel Inc.	768	504
	Other companies:		
	Lantic Sugar Limited	10,297	9,933
	Other	889	(217)
		17,328	13,679

In addition, other income includes \$1,477,000 (1984 – \$1,718,000) of interest and other charges to these companies.

	(thousands of dollars)	1985	1984
9 Extraordinary items	Tax benefit resulting from prior years' loss carry-forwards	89	775
	Costs of restructuring and discontinuance of certain businesses (less income tax recovery of \$982,000; 1984 – \$864,000)	(648)	(826)
	Equity in extraordinary earnings of investment	243	—
		(316)	(51)

(thousands of dollars)

10 Commitments	Operating lease commitments are as follows:
	1986 1,878
	1987 1,971
	1988 1,356
	1989 1,213
	1990 800
	1991-1995 1,208
	Capital expenditures committed at December 31, 1985 amounted to \$4,802,000. In addition, the board of directors has approved a further \$5,058,000 of capital expenditures.

11 Pension plans	The Corporation and its subsidiaries have a number of pension plans for employees. There are no unfunded liabilities in respect of these pension plans.
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12 Segmented data	The Corporation operates principally in Canada and the United States in three industries – the manufacturing and distribution of a wide variety of steel products, the manufacturing of bricks and the manufacturing of electrical components. Steel products include a wide range of fabricated metal products used in industrial and commercial construction and the agricultural industry. Bricks are manufactured and sold in Canada and the United States for use in commercial and residential construction. Electrical components include a range of products used by the heating, lighting and consumer markets.
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(a) Industry segments

(thousands of dollars)	1985	1984	1985	1984	1985	1984	1985	1984
	Steel		Brick		Electrical		Total	
Sales to customers outside the enterprise	117,076	110,533	107,652	87,334	30,191	21,022	254,919	218,889
Earnings (loss) from operations	214	(9,565)	22,951	18,994	354	2,068	23,519	11,497
Pre-operating expenses							(517)	–
Corporate expenses							(3,480)	(2,904)
Earnings from operations							19,522	8,593
Identifiable assets								
Operating	73,154	71,970	89,210	66,721	18,993	7,688	181,357	146,379
Investments in companies accounted for by the equity method								
Steel							29,429	28,738
Sugar							23,103	23,413
Other							14,511	11,758
Corporate assets							8,105	6,637
Total assets							256,505	216,925
Capital expenditures *	4,216	3,042	20,495	6,078	6,452	418	31,163	9,538
Depreciation	2,081	2,403	5,508	4,686	731	221	8,320	7,310

*includes cost of fixed assets from acquisitions

Segmented data (continued)	(b) Geographic segments (thousands of dollars)					
	1985	1984	1985	1984	1985	1984
	Canada		United States		Total	
Sales from operations within	207,566	172,311	47,353	46,578	254,919	218,889
Earnings (loss) from operations						
Operating	23,181	9,620	338	1,877	23,519	11,497
Pre-operating expenses (517)		-	-	-	(517)	-
Corporate expenses	(3,480)	(2,904)	-	-	(3,480)	(2,904)
	19,184	6,716	338	1,877	19,522	8,593
Identifiable assets						
Operating	135,715	96,984	45,642	49,395	181,357	146,379
Investments in companies accounted for by the equity method	67,043	63,909	-	-	67,043	63,909
Corporate	8,105	6,637	-	-	8,105	6,637
	210,863	167,530	45,642	49,395	256,505	216,925

(c) Segmented data with respect to the Corporation's non-consolidated subsidiaries is as follows:

		1985		1984	
		Proportionate Share		Proportionate Share	
		Total	Thereof	Total	Thereof
Ferrum Inc.	Sales	113,560	113,560	101,474	101,474
	Earnings from operations	13,919	13,919	12,161	12,161
	Identifiable assets	68,541	68,541	73,471	73,471
	Capital expenditures	1,056	1,056	388	388
	Depreciation	2,370	2,370	2,352	2,352
Armco Westeel Inc.	Sales	81,501	32,600	83,070	33,228
	Earnings from operations	6,535	2,614	5,827	2,330
	Identifiable assets	41,627	16,651	39,989	15,996
	Capital expenditures	958	383	906	362
	Depreciation	1,069	428	1,054	422

(d) Segmented data is also provided for the Corporation's investment in Lantic Sugar Limited, which is a significant investment of the Corporation:

		1985		1984	
		Proportionate Share		Proportionate Share	
		Total	Thereof	Total	Thereof
Lantic Sugar Limited	Sales	210,027	105,014	203,155	101,578
	Earnings from operations	31,184	15,592	38,985	19,493
	Identifiable assets	105,843	52,922	117,416	58,708
	Capital expenditures	2,781	1,391	2,621	1,311
	Depreciation	3,006	1,503	2,446	1,223

Five year financial review

Operating results (millions of dollars)	1985	1984	1983	1982	1981
Sales	254.9	218.9	267.1	341.1	474.6
Earnings from operations	19.5	8.6	11.4	1.9	36.1
Earnings (loss) before extraordinary items	28.1	17.9	11.5	(3.9)	13.1
Net earnings (loss)	27.7	17.9	12.5	(6.3)	14.2
Funds provided from operations	31.1	20.7	14.0	0.9	24.6
Interest expense					
Short-term	3.3	3.5	3.6	9.8	9.0
Long-term	–	–	3.0	6.8	8.5
Dividends paid on Common shares	7.0	5.1	3.5	4.0	6.3
Dividends paid on Preference shares	3.6	4.0	3.9	4.6	5.2
Capital expenditures	31.2	9.5	6.5	11.2	27.0
Depreciation	8.3	7.3	7.4	10.2	9.0
Financial position (millions of dollars)					
Intangibles	7.6	5.0	4.5	4.6	11.6
Working capital	14.0	22.5	25.3	58.9	52.0
Fixed assets – net	85.6	67.0	63.1	69.2	116.3
Total assets	256.5	216.9	206.5	237.2	301.5
Long-term debt	–	–	0.6	38.4	38.9
Common shareholders' equity	130.8	109.2	93.7	70.0	84.2
Preference shareholders' equity	46.5	52.1	52.6	52.6	53.2
Financial ratios					
Working capital	1.2:1	1.4:1	1.4:1	1.8:1	1.5:1
Return on common shareholders' equity (%)	20.2	13.8	10.5	(14.2)	11.0
Return on capital employed (%)	16.5	11.7	8.5	(0.1)	10.6
Long-term debt to shareholders' equity	N/A	N/A	1:99	24:76	22:78
Share data (dollars per share)					
Basic earnings (loss) before extraordinary items	2.10	1.20	0.71	(0.85)	0.81
Basic earnings (loss) after extraordinary items	2.07	1.19	0.80	(1.10)	0.92
Fully diluted earnings	1.90	1.12	0.69	N/A	0.88
Dividends paid	0.56	0.40	0.32	0.48	0.64
Equity	11.04	9.36	8.17	7.03	8.52
Shares outstanding					
Common (000's)	11,848	11,657	11,467	9,950	9,884
Second Preference (000's)	1,436	1,473	1,507	1,507	1,546
Number of common shareholders	4,163	4,162	4,424	4,875	4,648
Price range					
Common shares					
High	20.63	13.37	14.75	11.00	16.00
Low	10.63	9.75	7.50	4.30	8.75
Second Preference shares					
High	14.25	12.50	13.00	9.25	11.50
Low	12.00	10.87	8.75	7.00	7.75
1977 Warrants					
High	13.50	6.87	8.50	5.25	9.75
Low	4.00	3.75	3.50	1.15	3.60

Certain figures have been reclassified for comparative purposes.

The Directors

Corporate Directory

		Corporate Management	Operating Management
Peter C. Bawden Calgary, Alberta Chairman of the Board Peter Bawden Drilling Ltd.	William M. Hatch* Toronto, Ontario Chairman of the Board Hatchwill Investments Limited	George E. Mara, c.m. Chairman of the Board	R. Jay Atkinson Group President, Steel Operations Sonco Division Lyman Tubeco Division Westeel Division 250 Brockport Drive Rexdale, Ontario M9W 5S1 Tel: (416) 675-7990
Roy F. Bennett** Toronto, Ontario President Bennecon Limited	J. Howard Hawke* Toronto, Ontario Chairman of the Board Bache Securities Inc.	H. Gordon MacNeill President and Chief Executive Officer	
J. Allan Boyle** Toronto, Ontario Director The Toronto-Dominion Bank	H. Gordon MacNeill* Toronto, Ontario President and Chief Executive Officer Jannock Limited	D. Peter Donovan Vice-President, Finance and Chief Financial Officer	
L. Yves Fortier, o.c. Montreal, Quebec Senior Partner Ogilvy, Renault	George E. Mara, c.m.* Toronto, Ontario Chairman of the Board Jannock Limited	Peter S. Hayward Vice-President, Treasurer	E. Yngve Carlson Chairman Canada Brick Division P.O. Box 668, Britannia Road West Streetsville, Ontario L5M 2C3 Tel: (416) 821-4521
William P. Frankenhoff New York, New York President William P. Frankenhoff, Inc.	William J.R. Paton Thunder Bay, Ontario Chairman of the Board The Northern Engineering & Supply Co. Limited	Dale H. Kerry Vice-President, Human Resources	Victor C. Hepburn President Canada Brick Division P.O. Box 668, Britannia Road West Streetsville, Ontario L5M 2C3 Tel: (416) 821-4521
	Peter P. Saunders Vancouver, British Columbia Chairman of the Board and President Versatile Corporation	R. Harold Weir Vice-President and Secretary	
	Donald R. Sobey* ** Stellarton, Nova Scotia Chairman of the Board Empire Company Limited		John C. Annett President Allanson Division 33 Cranfield Road Toronto, Ontario M4B 3H2 Tel: (416) 755-1191
	Donald G. Willmot* Toronto, Ontario Honorary Chairman of the Board The Molson Companies Limited		

*Member of the Executive Committee

**Member of the Audit Committee

Registered Office

Suite 5203, 52nd Floor
Toronto-Dominion
Bank Tower
Toronto, Ontario
M5K 1B7
Tel: (416) 364-8586

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Vancouver

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Coopers & Lybrand

Solicitors

Fraser & Beatty,
Toronto
McCarthy & McCarthy,
Toronto

Incorporation

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